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Japan: Discontinuing Household Solar Subsidies

Japan's Ministry of International Trade and Industry (MITI) announced recently that it will scrap government subsidies for rooftop solar systems at the end of fiscal 2002 (31 March 2003) in order to boost industry competition. MITI already revised downward the subsidies -- established in 1994 -- earlier this year, though in a fashion that arguably further promoted low-cost systems. Tokyo's new announcement likely will place tremendous cost-cutting pressure on Japan's solar-cell-system manufacturers, many of which have invested massive amounts in their production facilities and who probably were hoping for continued government largess.

MITI's decision to abolish the subsidies by March 2003 came after the ministry began sounding out manufacturers on its intentions, according to press reports. MITI reportedly now thinks there is less need for subsidies because advances in technology have led to lower prices.

Tokyo decided earlier this year to scale down its incentives, apparently believing that it could still meet its objectives for promoting solar energy (see the 30 June 2000 Daily). The change amounted to adjusting solar subsidies to a fixed amount per kilowatt of installed capacity, thereby giving homeowners an incentive to purchase cheaper systems that would qualify for a proportionally larger subsidy. For fiscal 2000 (ending 31 March 2001), the budget for rooftop solar system subsidies is \$136 million, a 9.4-percent decrease from fiscal 1999 (see table). The 2001 budget for subsidies likely will be cut further, according to press reports.

MITI Residential Solar Rooftop Program (Nihon Kogyo Shimibun and NEF)

Fiscal Year	Households	MITI budget	Megawatts
1994	539	\$17.3 million	1.9
1995	1,065	\$31.1 million	3.9
1996	1,986	\$38.0 million	7.5
1997	5,654	\$104.2 million	19.5
1998	6,352	\$137.9 million	24.1
1999	17,396	\$150.1 million	64.3
2000	TBD	\$136.0 million	TBD
Totals (end 1999):	32,992		121.2

Administered through MITI's Agency of Natural Resources and Energy, NEF

- This fiscal year, household solar system purchasers can receive \$2,532/kW for all types and costs of systems (up to 8/31/2000), and \$1,688/kW (up to 4kW) from 9/1/2000 through 1/31/2001.

At the end of fiscal 1999 (31 March, 2000), some 33,000 households in Japan had received government subsidies for solar systems whose installed costs now average \$8,500/kW, down from \$37,500/kW in 1994.

- Japan requires that electric utilities purchase excess electricity generated by residential systems at the same price they charge consumers (the average is about \$0.22/kWh).
- MITI predicts that costs will drop to about \$3,750/kW by 2003, a point at which solar power will be competitive with grid-delivered electricity.

Comment

Although Japan is rethinking its subsidies for residential solar systems, it is notable that this comes on the heels of -- or because of -- an overwhelmingly successful initial phase of subsidies that has resulted in tens of thousands of households with solar systems that likely would not exist otherwise. MITI's forecast that household solar systems will be competitive with grid power by the time it stops the subsidies is optimistic to be sure, although manufacturers now have a little more than two-and-a-half years to determine if they can lower costs enough to bear this veritable "kick in the pants."

- Less likely is Japan's long-term target of achieving 4,600 megawatts (MW) of nationwide solar capacity by 2010. As of this March, only 200 megawatts were installed.

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